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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE ITS ANTHEM WATER DISTRICT AND ITS SUN CITY WATER DISTRICT, AND POSSIBLE RATE CONSOLIDATION FOR ALL OF ARIZONA AMERICAN WATER COMPANY'S DISTRICTS.

DOCKET NO. W-01303A-09-0343

Arizona Corporation Commission
DOCKETED
FEB - 7 2012

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS ANTHEM / AGUA FRIA WASTEWATER DISTRICT, SUN CITY WASTEWATER DISTRICT, AND SUN CITY WEST WASTEWATER DISTRICT.

DOCKET NO. SW-01303A-09-0343

**REPLY BRIEF
EPCOR WATER (USA)**

1 EPCOR WATER (USA)¹ ("EPCOR") hereby submits its reply brief in the above-
2 captioned case.

3 **I. REPLY TO CITY OF PHOENIX**

4 On January 6, 2011, the Commission issued Decision No. 72047 in this docket. Among
5 other things, Decision No. 72047 approved new rates for EPCOR's Anthem-Agua Fria

¹ On February 1, 2012, Arizona-American Water Company was acquired by EPCOR Water (USA).

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1 Wastewater District. Decision No. 72047 left this docket open to consider just one issue:
2 whether to deconsolidate the Anthem-Aqua Fria Wastewater District into a separate Anthem
3 Wastewater District and a separate Agua Fria Wastewater District. Put another way, the sole
4 purpose of this phase of the docket, is to consider the design and implementation of stand-alone
5 revenue requirements and rate designs for a separate Anthem Wastewater District and a separate
6 Agua Fria Wastewater District.

7 The City of Phoenix ("City") has apparently overlooked the clear purpose of this docket
8 and asks the Commission to leave this docket open for yet another phase – to reexamine the
9 Other Wholesale User ("OWU") rate that the City pays EPCOR for wastewater treatment
10 services it receives in Anthem. Because this docket was closed for all other purposes other than
11 to evaluate deconsolidation, the City's request is obviously outside the scope of the limited issue
12 left open by Decision No. 72047. Essentially, the City is improperly asking for a rehearing of
13 Decision No. 72047.

14 Further, the City has already asked for rehearing of Decision No. 72047. On June 23,
15 2011, the City docketed a filing titled "Motion to Intervene and Notice of Errors in Exhibit 'A' to
16 Decision No. 72047" ("Motion"). The Motion made a further request as follows:

17 Phoenix requests that the Commission set a limited rehearing [of Decision No. 72047] for
18 the sole purpose to clarify pages ii, iv and vi to "Exhibit A" to set out a Wholesale
19 Potable Water Rate of \$2.32 per one thousand gallons delivered and a Wheeling Water
20 Rate of \$0.30 / Kgal delivered unless Arizona American can support a change in either
21 rate by submitting an analysis to Phoenix of the actual costs paid or incurred by Arizona
22 American with respect to providing the respective services under the Anthem Wholesale
23 Water/Wastewater Service Agreement.

24 Therefore, the City's request is already before the Commission. There is no reason to burden
25 this phase of EPCOR's rate case with a redundant request.

26 The rate case data is also too stale to be evaluated in yet another phase of this case. This
27 case is based on a 2008 test year. It is now 2012, and every cost and revenue has most likely
28 materially changed. To further re-examine this 2008 data in additional hearings would consume

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1 most of 2012, with any rate change not likely until late 2012 or 2013. This is clearly too far
2 beyond the end of the test year to establish a new OWU rate.

3 Decision No. 72047 ordered that this phase of the case would be limited to rate-design
4 issues, based on the revenue requirement found in the Decision. However, the City asks that the
5 OWU rate be reduced without any consideration of offsetting changes to other customers' rates.
6 If granted, the result would be to establish rates which do not allow recovery of the authorized
7 revenue requirement. This would be contrary to Decision No. 72047 and would result in rates no
8 longer just and reasonable as required by Article 15 § 3 of the Arizona Constitution.

9 The City complains that EPCOR struck large portions of Ms. Murrey's pre-filed
10 testimony "without previous notice to the parties."² The City is estopped from making this
11 complaint. It was at the hearing and did not object to striking the testimony.

12 **II. REPLY TO RUCO**

13 Two RUCO statements require clarification. First RUCO states: "The deconsolidated
14 figures presented in the Company's Compliance Application reveal that Anthem ratepayers have
15 been subsidizing Agua Fria customers under the existing consolidated arrangement."³ This
16 statement is true only since January 1, 2011, when new rates became effective.

17 First, based on 2008 test-year data, the Commission, in Decision No. 72047, approved a
18 rate increase effective January 1, 2011. As displayed in the deconsolidation compliance
19 application filed on April 1, 2011, both districts required a rate increase from prior existing rates.
20 Therefore, Anthem could not have been subsidizing Agua Fria (at least for the period 2008 to
21 2011) because its rates previous to 2011 were inadequate to recover its own cost of service.
22 Thus, RUCO's statement is only accurate as to the 2011 to-date period. Also, there is no
23 evidence from years prior to 2008 that supports the view that Anthem ratepayers have been
24 subsidizing Agua Fria customers or a contrary view that Agua Fria customers have been
25 subsidizing Anthem customers.

² City of Phoenix Brief at 2:19-21.

³ RUCO Brief at 3:10-12.

1 Second, RUCO erroneously states that “there is no evidence in the record to explain why
2 the two wastewater systems were consolidated in the first place.”⁴ This is incorrect. Ms. Murrey
3 filed three-and-one-half pages of testimony concerning why the systems were consolidated.⁵

4 **III. REPLY TO RUSSELL RANCH**

5 Russell Ranch claims that EPCOR violated Commission orders by comingling hook-up
6 fees from Russell Ranch and Verrado.⁶ This is incorrect. Mr. Broderick explained that all hook-
7 up fees received were immediately applied to plant.⁷ There were no remaining funds to deposit
8 into separate interest-bearing accounts.

9 Russell Ranch also believes that EPCOR should have a separate Russell Ranch business
10 unit.⁸ This is obviously well outside the scope of this hearing. Further, there is no business
11 reason to maintain a separate business unit for separately tracking expenses and revenues for
12 such a small grouping. Mr. Broderick explained: “There would be no reason for us to spend our
13 customers' money to have costs at that detail.”⁹

14 **IV. CONCLUSION**

15 Again, EPCOR takes no position in this compliance application concerning whether the
16 Commission should deconsolidate the Anthem-Agua Fria Wastewater District. For the reasons
17 stated above, EPCOR does oppose expanding the scope of this case to address the issues raised
18 by the City of Phoenix and Russell Ranch. This docket should be permanently closed following
19 the decision of the Commission regarding whether to deconsolidate the Anthem-Agua Fria
20 Wastewater District.

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⁴ *Id.* at 4:1-2.

⁵ Direct Testimony of Sandra L. Murrey dated April 1, 2011, at 3:16 – 6:24. This testimony was admitted into evidence as Exhibit A-1.

⁶ Russell Ranch Brief at 8.

⁷ Tr. 220:14-21, 223:23 – 224:25

⁸ Russell Ranch Brief at 9.

⁹ Tr. at 213:21-23.

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Respectfully submitted on February 7, 2012, by:



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